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UNITED STATES DEPARTMENT OF AGRICULTURE  
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TOBACCO PRODUCTION AND CONSUMPTION IN MANCHURIA

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## TOBACCO PRODUCTION AND CONSUMPTION IN MANCHURIA

Prior to an invasion by Japanese military forces in 1931 and 1932, Manchuria had for years been an integral part of China. Since 1932, Japan, through a sponsored local government, has maintained close control of the territory. It has been entirely separated from China, both from a political and an economic standpoint. The separation is not officially recognized but must be accepted when considering factors that affect its production and consumption of tobacco.

In a previous report on tobacco in China, the data and statements given did not, unless expressly stated, include Manchuria; however, much of the general information is applicable to Manchuria. This is particularly true as regards the history of tobacco production and consumption, the crossing and commingling of types grown, the absence of standardization in grading and marketing of the country's native leaf, and the consuming habits of the people. The trend in cigarette production and consumption, which is of importance to American tobacco growers, has also been somewhat similar to developments in China. 1/

Changes in the tobacco industry in Manchuria from 1933 through 1939, and particularly the phases connected with the cigarette industry, have been somewhat parallel with those in China during the 6 years 1928 to 1933. Production and consumption of native-type leaf has apparently not changed materially. There has been a rapid increase, however, in the manufacture and consumption of cigarettes and a sharp increase in domestic production of American-type flue-cured leaf. Prior to 1933 most of the cigarettes consumed were made from Chinese and American flue-cured leaf and were either manufactured in Manchuria or imported from China, the United Kingdom, or the United States. Since that year, imports of cigarettes have declined sharply and the quantity manufactured in the country has increased. The domestic product has continued to contain a large portion of both Chinese and American flue-cured, but the use of Manchurian-grown flue-cured has increased.

In 1936, Japanese authorities planned to expand flue-cured production over a period of 20 years at a rate of about 4,100,000 pounds annually. This was more than accomplished during the 3 years 1937 to 1939. If the plan continues to succeed, leaf production will probably increase faster than the increase in requirements for domestic consumption. The effect would be to reduce imports, which would limit the sale of American leaf in Manchuria and at the same time release more Chinese flue-cured for sale in competition with American in other countries. If continued for the next 17 years, production would be about 100 million pounds annually, which would probably permit a sizable export from Manchuria. The possibility of such developments makes it important that American growers know the potentialities of Manchuria as a flue-cured producing area, the developments that have occurred in its tobacco industry in recent years, and probable future developments.

1/ The report covering tobacco in China (F.S. - 77, September 1938) will be forwarded upon request to the Office of Foreign Agricultural Relations, United States Department of Agriculture, Washington, D. C.

## GENERAL ECONOMIC, SOIL, AND CLIMATE FACTORS

### Area, Location, and Population

Manchuria is a territory of about 504,000 square miles, located north-east of China proper. It is approximately one-sixth the area of the United States and about three-fifths the area of the States east of the Mississippi River. It extends from about 38 degrees to 54 degrees north latitude, a distance of about 1,100 miles. If transplanted in the Western Hemisphere it would extend from near Washington, D. C., north to the Hudson Bay in Canada.

In 1934, the population of the country, which has been increasing rapidly in recent decades, was estimated at about 33 million or over one-fourth that of the United States. According to recent estimates, approximately 98 percent of the people are classed as Manchurians, who are almost entirely immigrants or the descendents of immigrants from China. The Japanese population in the country represents less than 2 percent of the total and that of other nationalities, largely Russians, less than one-half of 1 percent. Agriculture, including tobacco growing, is almost entirely in the hands of Manchurians; however, the Japanese have, to a large extent, supervised the production of flue-cured tobacco.

### Topography and Soils

The central part of Manchuria is composed of a large plains area surrounded on the west, north, and east by relatively high mountains and extending south to the Yellow Sea. Beyond the mountains to the north and northwest are extensive plateau and plain areas, which extend into Siberia. The mountains on the east are continuous with those in northern Chosen. The production of farm crops, and particularly tobacco growing, is largely limited to the extensive central plains district.

Soils in the country, as classified under the Marbut system, include 9 classes. Those in the central plains region are made up of extensive districts of brown forest soils with which are included sections of loess, small sections of calcareous alluvium along streams and near the coast, large districts of chernozem and degraded chernozem, extensive sections of solonetz-solonchak complex, and small sections of chestnuts earth. 1/ Tobacco growing, and particularly flue-cured production, is largely confined to the brown forest soils, loesses, and calcareous alluvium. They are all alkaline in reaction, deep, fertile, and range from sandy to silt loams. Soils outside the central-plains area, which are used primarily for grassing, wheat, and other small grains, are largely podzolized clay earths. There are, however, rather limited areas of chestnut soils in these districts.

### Climate

The climate, except for limited areas along the coast, is somewhat similar to that in the States of Minnesota, the Dakotas, and Nebraska.

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1/ The chernozem soils are deep, black, rich earths characteristic of much of the soil in Russia. The solonetz-solonchak complexes are somewhat similar to the degraded chernozem.

The chief differences are that the months April and May are decidedly warmer, and rainfall is concentrated in the months June through September rather than extending from April through September as is the case in the northern-plains area of the United States.

Average annual rainfall in Manchuria varies from around 10 inches in parts of the dry northwest district to about 40 inches in some of the coastal sections. For the country as a whole the average is approximately 22 inches, and the average in most of the tobacco districts is near this amount. The months November through April are very dry, with monthly average rainfall in most districts ranging from only a fraction of an inch to slightly over an inch. Rains increase in May and June. They are heaviest in July and August, when monthly averages over most of the country range around 5 inches. September and October are relatively dry.

Temperatures are low in November through March and in most sections average between 0° to 23° Fahrenheit. In April or May, the wind direction changes from the north to the south and temperatures rise sharply as a result of the warming effects of the Yellow Sea. The average temperature for May is near 60° F. and for June, July, and August near 70° or above. It declines sharply in September and October with the change in wind direction to the north.

The average length of growing season varies from about 110 days in the colder northwest districts to about 200 days in the southern sections nearest the Yellow Sea. The average for the country as a whole is about 145 days. In most of the areas north of Mukden, the last spring frost occurs in May, whereas south of Mukden the late frosts are in April. The first fall frost in practically all districts occurs between the middle of September and the middle of October. It is only in sections adjacent to the Yellow Sea that fall frosts are delayed to the second half of October.

### TOBACCO PRODUCTION

#### Total Area and Production

Total tobacco acreage in Manchuria in recent years is estimated at about 100,000 acres and production at approximately 60,000,000 pounds annually. Accurate information of the crop is not available, however, and actual acreage and output may vary substantially from these estimates. In 1917, a Japanese authority estimated the crop at about 64,328,000 pounds. 1/ In 1927, it was estimated by the South Manchurian Railway at about 56,000,000 pounds and the Manchurian Year Book of 1931, published by the East Asiatic Investigation Bureau (a Japanese agency), gave the 1929 production as 68,466,000 pounds. The 1932 production was estimated by the South Manchurian Railway at about 62,000,000 pounds. 2/ None of the estimates are based upon

1/ Mr. Korinura, Handbook for Manchurian Tobacco Cultivation, Agricultural Publication No. 5 of the South Manchurian Railway, 1932 (printed in Japanese).

2/ The only Chinese estimate available was for 1931 and did not include the Province of Liaoning. It was published in the Chinese Ministry of Agriculture Statistical Monthly of February 1932 and showed an area of 41,650 acres and production of only 16,315,000 pounds.

conclusive information; however, they are supported by several independent investigations and appear to be in line with probable consumption. 1/ There is no indication of the trend in production, but as almost all of the crop is grown for home use it has probably increased about in proportion with the increase in population.

Information regarding yield per acre is as doubtful as estimated production. Where acreages are given with production estimates the indicated yield is in most cases near 600 pounds per acre. This appears approximately correct as most of the native crop is of relatively thin and small- to medium-leaf types. A low yield is also indicated by the limited use of fertilizers and the absence of intensive cultivation.

### Native Types

Native tobacco, which until 1939 accounted for most of the total production, is grown in many districts of Manchuria; however, production is concentrated in Kirin Province, the hilly area of Liaoning Province near the Chosen border, and in parts of the northern Province of Heilungkiang. It is estimated that approximately 63 percent of the native crop is grown in Kirin Province, about 18 percent in Liaoning, 14 percent in Heilungkiang, and 5 percent in Jehol.

There are numerous types of native leaf. One authority recognizes 21 producing districts for which there is some variation in type from one to another. 2/ A large part of the crop, however, is sold under 5 names, each of which presumably represents tobacco of somewhat uniform type. Nanshan leaf grown in the central part of Kirin Province is one of the leading general types. Tunshan leaf, probably next in importance, is grown in the hill area adjacent to Chosen. Hotou leaf is produced in the east central section of Kirin Province. Wuchang leaf, another important trade type, is grown in the north-central section of Kirin Province. Heilungkiang is produced in the hilly sections of the southern parts of Heilungkiang Province.

The native leaf is generally of low quality. Most of it is somewhat similar in color to certain of the American light or dark air-cured types. It has a very low oil content and poor texture, however, and does not burn well. It has a poor aroma and most of it an objectionable taste.

Cultural and curing practices followed in the growing of the crop do not vary as much as is the case in China; however, there is considerable difference from one district to another. New land cleared from timber is frequently used for the crop for about 3 to 5 years in succession and then used for other crops or allowed to remain idle until its fertility is renewed. Most of the production, however, is on old land, and satisfactory

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1/ Annual imports during the years preceding 1938 averaged about 26,000,000 pounds larger than exports. If this quantity is added to a domestic production of about 60,000,000 pounds the resulting supply would give a per-capita consumption of approximately 2.8 pounds, which is the same as has been estimated for China.

2/ Lee, Hsien-Wei, The Tobacco in China, mimeograph by Faculty of Commerce, Hautes Etudes, Race Course Road, Tientsin, 1934.

yields are obtained through applications of manure or bean cake. The crop is not as carefully cultivated as in China. New land is generally used without being ploughed, and cultivation on old lands is limited to the original ploughing and a few hoeings.

Seeding usually takes place during the last part of April or first half of May. In most cases, seeds are planted directly in the field, but the use of seed beds is common, particularly in the sections near the Chosen border. Suckers are usually removed, and the plant is topped after about 8 to 12 leaves have developed. Sprays are not used, and insect control is limited to the removal by hand of some of the most destructive pests. Irrigation is not as extensive as in China and is believed limited to less than 10 percent of the crop.

Harvesting, which in most districts begins during the latter part of August or first of September, is by priming; however, it is usual for the whole plant to be primed at a single time. It is usually accomplished by cutting out a piece of the stalk about 2 inches long and approximately half the thickness of the stalk with each leaf.

Practically all of the native crop is sun-cured. Most of it is wilted prior to the sun-curing process and is fermented after curing. The most common procedure is to pile the green leaves on the ground or in shallow ditches to a thickness of 5 to 10 inches, cover them over with kaoliang stalks and allow them to remain for 3 to 5 days or until they have turned completely yellow. They are then removed, tied in hands and hung exposed to the sun on the sides of farm buildings until the leaves, but not necessarily the stems, are completely dry. When brought in order by natural atmospheric conditions they are then taken indoors and piled in bulks about 5 feet square or larger, with butts of the hands out, and covered with cloth or kaoliang stalks. Unless fermentation becomes excessive the bulks are not disturbed and after 2 to 4 weeks the leaf is ready for use or sale.

#### American Flue-cured Type

American-type flue-cured production, which has developed in recent years, has been concentrated in the southern districts of Liaoning Province. Since 1937, however, its production has extended into other Provinces and as far north as Suihin, a town of about the same latitude as Duluth, Minnesota.

American-type flue-cured tobacco was first grown in Manchuria in 1915 on the experimental farm of the South Manchurian Railway located at Kung-chuling just north of Dairen. Satisfactory results were obtained with the crop, and in 1918 demonstration farms were established at Fenghwangcheng and Tilisu with the hope of inducing local farmers to take up its cultivation. Production by farmers in the Fenghwangcheng district near Antung was begun under the supervision of Japanese in 1919, and by 1923 the acreage had increased to about 500 acres. Production by farmers in other districts expanded slowly, and it was not until 1934, when the Government undertook to expand production, that it became significant. Since that year, there has been a sharp increase in acreage in the Tilisu district just north of the Kwangtung territory, and many new districts have been started.



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**Figure 1. Distribution of flue-cured tobacco acreage, Manchuria, 1938.**

Table 1.- Estimated acreage, yield, production, and price of flue-cured tobacco in Manchuria, 1930 to 1940

Year	Acreage harvested	Yield per acre	Production	Farm price per pound	
				Manchurian	United States
				currency	currency
			1,000	Yuan	United States
	<u>Acres</u>	<u>Pounds</u>	<u>pounds</u>	<u>cents</u>	<u>cents</u>
1930.....	1,800	-	1,800	10.0	2.2
1931.....	2,000	-	2,000	10.0	1.8
1932.....	2,000	-	2,000	10.0	2.1
1933.....	2,000	975	1,950	13.0	4.1
1934.....	3,300	950	3,135	13.0	4.2
1935.....	5,000	1,000	5,000	10.0	2.9
1936.....	4,500	1,100	4,950	15.0	4.3
1937.....	7,100	1,085	7,700	20.0	5.8
1938.....	11,100	1,172	13,000	25.0	6.9
1939 <u>a/</u> .....	35,000	1,114	39,000	35.0	8.2
1940 <u>a/</u> .....	45,000	1,111	50,000	-	-

Compiled from data from trade sources.

a/ Preliminary.

In 1936, a committee representing the Manchurian Government and leading cigarette manufacturers made a survey of the tobacco-producing districts of the country for the purpose of ascertaining the suitability of different districts to the production of foreign tobacco types, namely American flue-cured, burley, and Turkish leaf. The committee's findings were to the effect that there were extensive areas suitable for growing flue-cured that would compare in quality with that already being grown in the country and in China, Chosen, and Japan.

Following the committee's report, the Bureau of Industries of the Manchurian Government expanded the semi-Government corporation that was set up in 1934 for the purpose of developing flue-cured production. The company has increased production through so-called growers' associations in separate flue-cured districts. The associations are groups of farmers who have suitable land and have been selected by the company's representatives as desirable tobacco farmers. They are required to plant and cultivate flue-cured leaf under the supervision of a representative of the company. These supervisors are usually Japanese who were formerly connected with the Japanese or Korean tobacco monopolies, and the methods they have required in cultivating and handling the crop are somewhat similar to those followed in Japan. The company has a virtual monopoly and is the only organization to which the farmers can sell their crop.

Prices paid to farmers by the company since 1936 have been sufficiently high to give them greater returns per acre than they can secure from other crops, and as a consequence production has expanded rapidly. It was increased from about 7.7 million pounds in 1937 to 13.0 million in 1938 to 39.0 million pounds in 1939 and to about 50.0 million in 1940. It is the company's plan to continue to increase the crop for the next 16 years at the rate of about 4,100,000 pounds per year.

Leaf obtained by the company from farmers is redried and sold to manufacturers at prices substantially above those paid to farmers. Quantities offered for sale to individual cigarette manufacturers are about in proportion with their share of total cigarette sales in the country.

The quality of Manchurian flue-cured is in general somewhat comparable with that being grown in Shantung Province, China; however, since the operation of the semi-Government corporation it is reported to be more carefully graded by farmers and is cleaner. It varies by districts from dark lemon to orange color, has a fair amount of oil and stretch, burns well, but lacks the aroma of the American product.

The crop is grown on old lands, is rotated with soybeans, wheat, millet, peanuts, and other local crops, and fertilizer in the form of manure and bean cake is extensively used. Plants are set at the rate of about 7,000 to 10,000 per acre, and cultivation is intensive. Irrigation is not general but is frequently used in dry seasons, the water being drawn from surface wells. Harvesting and curing is essentially the same as in the United States. Coal is generally used for curing, as it is relatively cheap in comparison with wood.

During the past 2 or 3 years when production has been expanding rapidly and new districts being started, a portion of the crop has been sun-cured. Such practice is most common in new districts where it has not been proven that the leaf can be successfully grown commercially. Farmers in such districts are not required to build flue-curing barns until the Government-controlled company decides that production is feasible.

#### GRADING AND MARKETING

##### Native Leaf

Grading and marketing practices followed in the selling of Manchurian native leaf are essentially the same as those in China. The leaf may be graded by farmers into two or three grades somewhat in accordance with color and soundness. This is not general, however, and most of the leaf that is graded is leaf purchased by dealers and graded by them for resale to processors.

Much of the native tobacco is for use by the grower or for sale direct to tobacco retail shops in the locality where produced. Such sales are often made a few hands at a time as the farmer needs funds. Sales to tobacco dealers are believed to represent less than 40 percent of production. In the important producing districts certain centrally located towns are recognized as market centers for tobacco. Sales in these towns are usually made through a commission man who charges from 3 to 5 percent from both the farmer and the dealer. The leaf is usually sold on the basis of samples, and delivery by the farmer is not made until the sale is completed. Dealers who originally obtain the leaf resell it direct to tobacco retail shops or to larger merchants in the principal cities and towns.

### Flue-cured

The marketing of the country's flue-cured tobacco has always been almost entirely in the hands of Japanese agencies. They have by various means encouraged farmers to grow the leaf, have until recently paid low prices for it, and resold it to cigarette manufacturers at large profits. For the past few years, the Government-sponsored company, which is under Japanese management, has been the principal purchaser. Due to its monopolistic position the company is able to induce farmers to grade their leaf and to prevent them from adding foreign material. If leaf offered by farmers is not clean and graded in accordance with instructions given by supervisors of the company, the company refuses to purchase it and the farmer is informed as to what needs to be done to make his leaf acceptable. Leaf obtained by the company is in most cases redried and packed in hogshead for sale to cigarette manufacturers. 1/ Prices paid to farmers for flue-cured leaf since 1935 have increased progressively from less than 3 cents per pound for that year to over 8 cents in 1939. Prices to manufacturers since the beginning of the operation of the Government-controlled company are reported to have been about 2 to 4 cents per pound above the farm price.

### EXPORTS AND IMPORTS

Manchuria has for many years been a deficit tobacco-producing country. Since 1912, when records of imports and exports first became available, combined yearly imports of leaf and tobacco products have ranged from 7,000,000 to 38,000,000 pounds in excess of combined exports. The trend in imports has been upward, having increased from 11,000,000 pounds annually during the 5 years 1912 to 1916 to about 30,000,000 pounds annually for the 5 years ended with 1938. Combined exports increased from 2,300,000 pounds annually during the 5 years 1912 to 1916 to about 5,000,000 pounds annually for the 5 years ended with 1930 but have decreased sharply since that year. During the 5 years 1934 to 1938 they averaged only about 1,200,000 pounds annually.

#### Imports

During the period 1912 to 1918, most of the tobacco import was in the form of cigarettes and prepared tobacco, but beginning with 1919, leaf imports have usually exceeded the combined imports of tobacco products. During the 5 years 1935 to 1939 leaf imports represented over 90 percent of total combined imports. For many years flue-cured leaf from the United States and China, and in recent years from Japan, have accounted for most of the leaf import. From 1925 to 1932 imports from the United States exceeded those from all other sources, but, beginning with 1933, China has been the primary source of supply.

Cigarette imports in the early years were largely from the United States and the United Kingdom, but from 1922 to 1934 most of the supply was

1/ The first redrying plant in Manchuria began operating in 1936. In 1938, two additional plants were under construction, of which one was completed in time to redry a part of the 1938 crop. It was planned that additional plants would be installed as production increased and that in time all of the crop would be redried.

from China. Since 1934, imports from Japan have increased substantially and for the fiscal years 1937-38 and 1938-39 represented most of the total.

The imports of cigars, which during recent years have amounted to only about 9,000 pounds annually, have been largely from the Philippines. Imports of other products, which since 1931 have been less than 500,000 pounds annually, have been largely native pipe tobacco from China.

### Exports

Combined annual exports, which are largely leaf tobacco and cigarettes, have never exceeded 7,000,000 pounds annually, and during recent years have averaged between 500,000 and 4,000,000 pounds annually.

Leaf exports, which during the past 5 marketing years 1934-35 to 1938-39 averaged 407,000 pounds annually, have been native leaf to China, Chosen, Japan and Hong Kong. Cigarette exports, which during the 5 years ended with 1937-38 averaged 697,000 pounds annually, were largely shipments to China. Most of the total during the period was in 1937-38 when 2,468,000 pounds were sent to China to supply Japanese military forces and for sale in areas formerly supplied by Chinese factories that were shut down as result of hostilities. Exports of other products, which during the 5-year period have averaged less than 100,000 pounds annually, have been largely native pipe tobacco sent to China and Hong Kong.

Table 2.- Approximate Manchurian exports of leaf tobacco and tobacco products, 1909 to 1932 a/

Year	Leaf	Cigarettes	Cigars	Prepared tobacco	Total
	1,000 pounds	1,000 pounds	1,000 pounds	1,000 pounds	1,000 pounds
1909...	1,795	60	b/	c/	1,855
1910...	389	12	b/	c/	401
1911...	302	37	b/	c/	339
1912...	924	647	0	38	1,609
1913...	1,811	327	0	3	2,141
1914...	1,673	196	0	35	1,904
1915...	1,598	734	2	15	2,349
1916...	1,997	1,595	0	36	3,628
1917...	4,178	1,051	0	108	5,337
1918...	793	1,681	0	156	2,630
1919...	1,809	1,298	0	1,596	4,703
1920...	431	2,404	0	1,547	4,382
1921...	1,018	1,962	0	235	3,215
1922...	1,022	3,636	0	312	4,970
1923...	1,023	5,747	0	68	6,838
1924...	d/ 624	4,579	b/	33	5,236
1925...	d/ 674	2,516	b/	28	3,218
1926...	d/ 2,137	2,683	b/	26	4,846
1927...	d/ 2,080	3,982	b/	16	6,078
1928...	d/ 1,211	3,837	b/	31	5,079
1929...	d/ 1,171	3,354	b/	25	4,550
1930...	d/ 1,676	2,367	b/	15	4,058
1931...	d/ 690	1,842	0	9	2,541
1932 e/	0	554	b/	1	555

Compiled from data published by the China Maritime Customs.

a/ Data represent total shipments from individual Manchurian ports both to foreign countries and to China including Manchuria. It is subject to some error as small shipments from individual Manchurian ports might have been destined to other Manchurian ports. Small movement to China proper by inland routes is not included. b/ Not reported. c/ Included with leaf. d/ Includes stems, which were not reported until 1924. e/ Incomplete due to hostilities.

Table 3.- Approximate Manchurian receipts of leaf tobacco and tobacco products from China, imports from foreign countries, and approximate total exports, 1909 to 1932 a/

Year and source	Imports					Excess of	
	Leaf	Ciga- rettes	Cigars	Prepared tobacco	Total	Total exports	imports over exports
	1,000 pounds	1,000 pounds	1,000 pounds	1,000 pounds	1,000 pounds	1,000 pounds	1,000 pounds
1909 - China...	b/	b/	b/		b/		
Foreign:	676	2,203	17	c/	2,896	1,855	1,041
1910 - China...	b/	b/	b/		b/		
Foreign:	3,038	2,586	24	c/	5,648	401	5,247
1911 - China...	b/	b/	b/				
Foreign:	1,623	2,529	55	c/	4,207	339	3,868
1912 - China...	2,385	2,385	5	2,671	7,446		
Foreign:	1,982	2,628	59	c/	4,669		
Total...	4,367	5,013	64	2,671	12,115	1,609	10,506
1913 - China...	1,167	1,486	1	2,184	4,838		
Foreign:	3,303	2,935	36	c/	6,279		
Total...	4,475	4,421	37	2,184	11,117	2,141	8,976
1914 - China...	806	2,032	4	1,453	4,295		
Foreign:	1,562	2,780	39	c/	4,381		
Total...	2,368	4,812	43	1,453	8,676	1,904	6,772
1915 - China...	1,559	2,735	66	2,672	7,032		
Foreign:	1,911	1,794	228	c/	3,933		
Total...	3,470	4,529	294	2,672	10,965	2,347	8,618
1916 - China...	3,070	2,431	40	1,782	7,323		
Foreign:	2,198	2,949	113	c/	5,260		
Total...	5,268	5,380	153	1,782	12,583	3,628	8,955
1917 - China...	1,988	2,216	71	1,582	5,857		
Foreign:	3,917	3,268	32	c/	7,217		
Total...	5,905	5,484	103	1,582	13,074	5,337	7,737
1918 - China...	3,829	2,496	2	1,383	7,710		
Foreign:	3,396	4,721	44	c/	8,161		
Total...	7,225	7,217	46	1,383	15,871	2,630	13,241
1919 - China...	8,383	3,200	13	1,625	13,221		
Foreign:	3,958	4,938	47	c/	8,943		
Total...	12,341	8,138	60	1,625	22,164	4,703	17,461
1920 - China...	6,892	2,468	29	1,454	10,843		
Foreign:	4,245	5,214	42	c/	9,501		
Total...	11,137	7,682	71	1,454	20,344	4,382	15,962
1921 - China...	4,359	3,113	3	1,879	9,354		
Foreign:	1,410	5,961	95	c/	7,466		
Total...	5,769	9,074	98	1,879	16,820	3,215	13,605
1922 - China...	8,722	4,084	3	2,336	15,145		
Foreign:	1,585	4,349	27	c/	5,961		
Total...	10,307	8,433	30	2,336	21,106	4,970	16,136

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Table 3.- Approximate Manchurian receipts of leaf tobacco and tobacco products from China, imports from foreign countries, and approximate total exports, 1909 to 1932 a/ - Continued

Year and source	Imports					Total exports	Excess of imports over exports
	Leaf	Cigarettes	Cigars	Prepared tobacco	Total		
	: pounds	: pounds	: pounds	: pounds	: pounds	: pounds	: pounds
1923 - China...	10,372	5,859	7	2,138	18,376		
Foreign:	7,012	5,693	25	c/	12,730		
Total...	17,384	11,552	32	2,138	31,106	6,838	24,268
1924 - China...	d/8,250	4,235	b/	1,969	14,454		
Foreign:	6,236	3,699	17	49	10,001		
Total...	14,486	7,934	17	2,018	24,455	5,236	19,219
1925 - China...	d/7,016	3,723	b/	2,630	13,369		
Foreign:	17,375	2,070	15	33	19,493		
Total...	24,391	5,793	15	2,663	32,862	3,218	29,644
1926 - China...	d/6,404	3,613	b/	1,543	11,560		
Foreign:	9,996	2,800	17	26	12,839		
Total...	16,400	6,413	17	1,569	24,399	4,846	19,553
1927 - China...	d/5,805	3,823	b/	2,491	12,119		
Foreign:	14,892	2,096	18	60	17,066		
Total...	20,697	5,919	18	2,551	29,185	6,078	23,107
1928 - China...	d/7,269	6,842	b/	1,025	15,136		
Foreign:	13,938	2,254	29	57	16,278		
Total...	21,207	9,096	29	1,082	31,414	5,079	26,335
1929 - China...	d/7,033	9,322	b/	1,210	17,565		
Foreign:	13,206	4,062	22	60	17,350		
Total...	20,239	13,384	22	1,270	34,915	4,550	30,365
1930 - China...	d/6,610	7,513	b/	901	15,024		
Foreign:	12,466	4,676	19	12	17,173		
Total...	19,076	12,189	19	913	32,197	4,058	28,139
1931 - China...	d/4,870	4,017	0	460	9,347		
Foreign:	11,409	496	6	37	11,948		
Total...	16,279	4,513	6	497	21,295	2,541	18,754
1932 - China...	d/3,021	1,381	b/	123	4,525		
Foreign:	3,803	203	1	8	4,015		
Total...	6,824	1,584	1	131	8,540	555	7,985

Compiled from data published by China Maritime Customs.

a/ Foreign imports represent imports from abroad into Manchurian ports. Receipts from China represent interport movement of Chinese and Manchurian ports into Manchuria, which may include some foreign leaf and products brought into ports in China proper and reshipped to Manchuria, but does not include small shipments from China proper to Manchuria by inland routes.

b/ Not reported.

c/ Included with leaf.

d/ Includes stems, which were not reported until 1924.

Table 4.- Manchurian imports and exports of leaf tobacco and tobacco products, 1932-33 to 1938-39

Classification and country of origin	October - September						
	1932-33	1933-34	1934-35	1935-36	1936-37	1937-38	1938-39
	a/	b/					
	1,000	1,000	1,000	1,000	1,000	1,000	1,000
	pounds	pounds	pounds	pounds	pounds	pounds	pounds
<b>IMPORTS</b>							
Leaf tobacco -							
United States.....	-	11,970	4,435	4,397	11,365	5,056	1,308
United Kingdom.....	-	10	0	26	c/	0	0
China.....	-	17,921	14,559	21,795	20,859	8,496	19,560
Japan d/.....	-	3,075	2,775	3,007	4,221	1,192	10,947
Others.....	-	119	2,364	1,094	2,026	1,157	202
Total.....	e/27,483	33,095	24,133	30,319	38,471	15,901	32,017
Cigarettes f/-							
United States.....	-	17	16	18	19	6	c/
United Kingdom.....	-	220	309	145	87	54	2
China.....	-	1,485	1,253	505	360	2	c/
Japan d/.....	-	458	334	460	121	919	2,046
Others.....	-	113	7	28	754	167	c/
Total.....	e/1,163	2,293	1,919	1,156	1,341	1,148	2,048
Cigars g/-							
Total.....	7	10	22	5	6	2	2
Prepared tobacco							
Total.....	52	198	316	316	171	h/	h/
Total imports.....	28,705	35,596	26,390	31,796	39,989	17,051	34,067
<b>EXPORTS</b>							
Leaf tobacco.....	967	905	554	375	583	290	233
Cigarettes f/.....	314	66	52	90	51	2,468	825
Prepared tobacco i/...	84	242	294	39	3	h/	h/
Total exports.....	1,365	1,213	900	504	637	2,758	1,058
<b>EXCESS OF IMPORTS OVER EXPORTS</b>							
Leaf tobacco.....	26,516	32,190	23,579	29,944	37,888	15,611	31,784
Cigarettes f/.....	849	2,227	1,867	1,066	1,290	-1,320	1,223
Cigars g/.....	7	10	22	5	6	2	2
Prepared tobacco.....	-32	-44	22	277	168	-	-
Total.....	27,340	34,383	25,490	31,292	39,352	14,293	33,009

Compiled from data published in Monthly Returns of Foreign Trade of Manchoukuo.

a/ January to September 1933 only. Not reported in 1932.

b/ Quantities by sources prorated in accordance with imports from January to September 1934.

c/ Less than 500 pounds.

d/ Includes small quantities from Chosen for all years except 1937-38, when they represented most of the total.

e/ Not separately reported by countries.

f/ Reported in pieces and converted to pounds at 355 cigarettes per pound.

g/ Reported in pieces and converted to pounds at 42 cigars per pound. Not separately reported by countries.

h/ Not reported.

i/ Include cigars and products other than cigarettes.

# Import and Export Duties

Prior to 1932, Manchuria was included in a customs unit with China, and Chinese import and export duties were levied at Manchurian ports. Following the Japanese invasion in 1931-32, the Manchurian customs were separated from China, but for the time being duty rates remain unchanged. Import duties continued to be collected in the Chinese customs gold unit and export duties in the Chinese haikwan tael or their equivalent in Manchurian currency. At first, the rates in terms of Manchurian currency fluctuated in accordance with exchange, but on April 10, 1933, the rate between the Manchurian yuan and the Chinese customs gold unit was fixed at 1.95 yuan per unit and that for the haikwan tael at 1.56 per tael. Later, on July 22, 1933, the entire import and export tariff schedule was fixed in Manchurian yuan. At the same time, import duties on leaf were increased to more than double what they had been under the 1931 Chinese tariff schedule. Changes in all other items, both imports and exports, under the classification of tobacco were limited to the conversion from Chinese customs units to Manchurian yuan at the fixed rates mentioned above.

On November 22, 1934, the tariffs on cigarettes and cigars were revised. For cigarettes the number of classes were increased from seven to nine. The two additional classes were in the low-priced group. Valuations of the first seven classes were not changed materially from the original seven classes, but the duties on the classes two to seven were increased materially. Duties on the two additional low-priced classes were fixed at 3 and 2 yuan per 1,000, respectively, as contrasted with 2.54 yuan, the original duty on the lowest priced class in the schedule effective from July 22, 1933.

In January 1938 a general revision of the Manchurian tariff was made effective, which included changes in all import duties on leaf tobacco and tobacco products but no changes in the export duties. Duties on leaf imports were further increased about 66 percent on high-priced leaf and 20 percent on lower-grade leaf. The import duty on cigarettes, cigars, and cut tobacco in tins was made 100 percent ad valorem and that on other cut tobacco 80 percent ad valorem.

The following tabulation shows the import and export duties on leaf tobacco, cigarettes, and other tobacco products that have been effective since Manchuria became independent from China. 1/

<u>Import Duties a/</u>			
		Manchurian currency	United States currency
		Yuan	Cents
<u>Effective July 22, 1933 b/</u>		<u>per picul</u>	<u>per pound</u>
<u>Leaf Tobacco:</u>			
(a)	Value over M.¥ 200 per picul (42.30¢ per pound)	58.50	12.37
(b)	Value over M.¥ 70 but not over M.¥ 200 per picul (14.81¢ to 42.30¢ per pound).....	29.25	6.19
(c)	Value not over M.¥ 70 per picul (14.81¢ per pound).....	12.70	2.69

-- Continued

1/ Conversions to United States currency were made at rates prevailing when duties became effective, i.e. the average rate for July 1933 of 28.20 cents per yuan, for November 1934 of 32.40 cents per yuan, and for January 1938 of 29.03 cents per yuan.

Import Duties - Continued

	Manchurian currency Yuan per 1,000	United States currency Dollars per 1,000
<u>Cigarettes:</u>		
(a) Value over M.¥ 42.67 (\$12.03) per 1,000 and all cigarettes not bearing a distinctive brand or name on each cigarette.....	31.20	8.79
(b) Value over M.¥ 29.02 (\$8.18) but not over M.¥ 42.67 (\$12.03) per 1,000.....	16.97	4.79
(c) Value over M.¥ 22.19 (\$6.26) but not over M.¥ 29.02 (\$8.18) per 1,000.....	14.04	3.96
(d) Value over M.¥ 15.37 (\$4.33) but not over M.¥ 22.19 (\$6.26) per 1,000.....	10.34	2.92
(e) Value over M.¥ 10.24 (\$2.89) but not over M.¥ 15.37 (\$4.33) per 1,000.....	7.61	2.15
(f) Value over M.¥ 5.13 (\$1.45) but not over M.¥ 10.24 (\$2.89) per 1,000.....	4.29	1.21
(g) Value M.¥ 5.13 (\$1.45) or less per 1,000.....	2.54	0.72
<u>Cigars:</u>		
(a) Value over M.¥ 136.50 (\$38.49) per 1,000.....	126.75	35.74
(b) Value not over M.¥ 136.50 (\$38.49) per 1,000....	46.80	13.20
	Yuan	Cents
	<u>per picul</u>	<u>per pound</u>
<u>Prepared Tobacco:</u>		
(a) In bulk.....	122.85	25.98
(b) In tins or packages.....	50 percent ad valorem	
<u>Snuff:</u> ..... 50 percent ad valorem		
Tobacco Stalk.....	1.93	0.41

Effective November 22, 1934

	Yuan per 1,000	Dollars per 1,000
<u>Cigarettes:</u>		
(a) Value over M.¥ 40 (\$12.96) per 1,000 and all cigarettes not bearing a distinctive brand or name on each cigarette.....	32.00	10.37
(b) Value over M.¥ 30 (\$9.72) but not over M.¥ 40 (\$12.96) per 1,000.....	28.00	9.07
(c) Value over M.¥ 21 (\$6.80) but not over M.¥ 30 (\$9.72) per 1,000.....	22.00	7.13
(d) Value over M.¥ 15 (\$4.86) but not over M.¥ 21 (\$6.80) per 1,000.....	18.50	5.99
(e) Value over M.¥ 10 (\$3.24) but not over M.¥ 15 (\$4.86) per 1,000.....	12.00	3.89
(f) Value over M.¥ 6 (\$1.94) but not over M.¥ 10 (\$3.24) per 1,000.....	8.50	2.75
(g) Value over M.¥ 4 (\$1.30) but not over M.¥ 6 (\$1.94) per 1,000.....	5.00	1.62
(h) Value over M.¥ 2.50 (\$.81) but not over M.¥ 4 (\$1.30) per 1,000.....	3.00	0.97
(i) Value not over M.¥ 2.50 (\$.81) per 1,000.....	2.00	0.65

Import Duties - Continued

	Manchurian currency	United States currency
	Yuan per 1,000	Dollars per 1,000
<u>Cigars:</u>		
(a) Value over M.¥ 300 (\$97.20) per 1,000.....	235.00	76.14
(b) Value over M.¥ 200 (\$64.80) but not over M.¥ 300 (\$97.20) per 1,000.....	175.00	56.70
(c) Value over M.¥ 100 (\$32.40) but not over M.¥ 200 (\$64.80) per 1,000.....	122.00	39.53
(d) Value over M.¥ 50 (\$16.20) but not over M.¥ 100 (\$32.40) per 1,000.....	90.00	29.16
(e) Value over M.¥ 25 (\$8.10) but not over M.¥ 50 (\$16.20) per 1,000.....	45.00	14.58
(f) Value not over M.¥ 25 (\$8.10) per 1,000.....	22.00	7.13

Leaf Tobacco, Prepared Tobacco, Stalk, and Snuff.... same as tariff of 1933

Effective January 1, 1938

	Yuan per 100 kilograms	Cents per pound
<u>Leaf Tobacco:</u>		
(a) Value not over M.¥ 115 per 100 kilograms (15.14¢ per pound).....	25.45	3.35
(b) Value not over M.¥ 200 per 100 kilograms (26.34¢ per pound).....	82.15	10.82
(c) Others.....	129.70	17.08

Tobacco Stems and Dust..... 45 percent ad valorem

Cigars and Cigarettes..... 100 percent ad valorem

Tobacco, not otherwise recorded:

(a) In cans.....	100 percent ad valorem
(b) Others.....	80 percent ad valorem

Export Duties a/

Effective July 22, 1933 b/

	Yuan per picul	Cents per pound
<u>Cigars and Cigarettes</u> .....	7½ percent ad valorem	
<u>Leaf Tobacco</u> .....	2.65	0.56
<u>Prepared Tobacco</u> .....	3.12	0.66
<u>Tobacco, not otherwise recorded</u> .....	7½ percent ad valorem	

a/ In addition to the following duty rates is a surtax for flood-relief fund, which is 5 percent of the duty collected.

b/ Prior to July 1933, import and export duties were the same as the Chinese duties promulgated on January 1, 1931, and were collected in Chinese customs units or their equivalent in Manchurian yuan.

## MANUFACTURE AND CONSUMPTION

It is estimated that during the 5 years 1935 to 1939 Manchuria consumed about 85,000,000 pounds of tobacco annually. Of this amount approximately 50,000,000 or nearly 60 percent of the total has been in the form of cigarettes. Most of the remainder is consumed as pipe tobacco. Cigar consumption is negligible, the use of chewing tobacco practically nil, and consumption of snuff is estimated to represent less than 2 percent of the total. Per-capita consumption is estimated at about 2.8 pounds per year, which is the same as in China, above that of Japan of about 2.1 pounds, but far below consumption in the United States of about 6.6 pounds.

### Pipe Tobacco

The consumption of pipe tobacco during recent years is estimated at approximately 33,000,000 pounds annually or nearly 40 percent of total consumption. During the past two decades, quantities consumed have declined in spite of an increase in population, the decrease having resulted from a pronounced shift to cigarettes. Pipe tobacco is made almost entirely from native leaf and is smoked in dry pipes. The use of water pipes is very limited. Manufacture is by consumers themselves or by small concerns that prepare the product for sale directly to consumers. There are no standard brands or packages. It is sold in bulk and usually in small quantities.

### Snuff

The use of snuff has a long history in Manchuria and a century or more ago probably accounted for much of the tobacco consumed. Snuff taking was a universal habit, especially in the western section of the country near Mongolia. The exchange of snuff bottles (which have always been products of art) and the offering of snuff became a form of greeting and an expression of good will as has been handshaking in western countries. Today many of the people of western Manchuria carry snuff bottles and exchange them in greeting. The actual taking of snuff, however, has given way to cigarette and pipe smoking. Manchurian snuff is made from both native and certain types of leaf brought in from China. Production is by individuals, most of whom claim to have secret formulas for its preparation. In addition to tobacco it contains various oils and spices.

### Cigarettes

Cigarette consumption in Manchuria has increased rapidly during recent years. The building of railroads, industrial expansion, the rapid growth of cities and towns, and the maintenance of a large Japanese military force in the country have brought together large numbers of people, both from in- and outside Manchuria, whose incomes are sufficiently high to enable them to smoke low-priced cigarettes. In 1916-17, leaf used in cigarettes consumed was estimated at only about 5,000,000 pounds annually. Except for the recession in consumption caused by hostilities in 1931-32, the trend has been progressively upward for many years and for the marketing year 1938-39 the quantity of tobacco used in cigarettes consumed was estimated at approximately 54,000,000 pounds. Most of the consumption has always been in the larger cities and towns. Consumption by the rural population is estimated to represent less than 15 percent of the total.

# Manufacture

The first cigarette factory in Manchuria, which was owned and operated by the British American Tobacco Company, began production in 1901. At the close of the Russo-Japanese War a Japanese-owned concern was established at the port of Dairen. Both of the plants were small and the output was not sufficient to meet even the limited demand of the country. As consumption increased, larger factories were built. Part of their output, and particularly that of plants in the customs-free port of Dairen, has been exported. The bulk of production, however, has been for domestic use. As late as 1930, imports of cigarettes, which for that year totaled about 12,200,000 pounds, represented something near two-fifths of the cigarettes consumed.

Table 5.- Estimated supply of tobacco in Manchuria by kinds made available for cigarette production, total weight used in cigarettes, and stocks of tobacco on hand at the end of marketing year, 1931-32 to 1939-40

Year (October- September)	Supply of tobacco made available a/					Increase: Stocks		
	Domestic:	Domestic:	Imports:	Other :	Total :	Used in:	or :	on hand
	flue- cured :	sun- cured :	United States :	imports: b/ :		ciga- rettes:	decrease: in stock:	at end of year
	Million:	Million:	Million:	Million:	Million:	Million:	Million:	Million:
	pounds :	pounds :	pounds :	pounds :	pounds :	pounds :	pounds :	pounds :
1931-32....	2.0 :	3.0 :	7.0 :	2.0 :	14.0 :	16.0 :	-2.0 :	18.5
1932-33....	2.0 :	2.5 :	15.0 :	14.0 :	33.5 :	27.0 :	6.5 :	25.0
1933-34....	2.0 :	2.0 :	12.0 :	21.1 :	37.1 :	33.0 :	4.1 :	29.1
1934-35....	3.0 :	1.0 :	5.0 :	19.7 :	28.7 :	35.0 :	-6.3 :	22.8
1935-36....	5.0 :	0.5 :	5.5 :	25.9 :	36.9 :	40.0 :	-3.1 :	19.7
1936-37....	4.5 :	1.0 :	14.0 :	28.5 :	48.0 :	47.0 :	1.0 :	20.7
1937-38....	7.3 :	1.5 :	9.5 :	21.0 :	39.3 :	52.0 :	-12.7 :	8.0
1938-39....	11.7 :	2.0 :	3.0 :	34.0 :	50.7 :	53.5 :	-2.8 :	5.2
1939-40 c/:	36.5 :	3.0 :	0.0 :	20.0 :	59.5 :	58.0 :	1.5 :	6.7
	:	:	:	:	:	:	:	:

Compiled from official and trade data by Office of American Agricultural Attaché, Shanghai.

a/ Imports include both leaf and stems.

b/ Primarily flue-cured leaf from China, and in last 3 years a substantial quantity of leaf and stems from Japan.

c/ Forecast as of June 1940.

Following the Japanese occupation of Manchuria in 1932, domestic manufacture increased substantially both as a result of increased consumption and the application of duties on cigarettes brought in from China. During the fiscal years 1934-35 to 1938-39 domestic manufacture supplied over 95 percent of consumption.

The British American Tobacco Company and its affiliates have been the principal cigarette manufacturing and distributing concern in Manchuria. It is estimated that until 1932 the yearly sales of this concern varied from 75 to 90 percent of the total. Japanese-owned concerns have for many years been next in importance and since 1932 their manufacture and sales have accounted for an increasing proportion of the total. It is estimated that in 1938-39 their sales accounted for over one-third of the cigarettes sold.

Hand-rolled cigarettes have never competed with the factory product, as has been the case in China. The principal explanation for this is that large quantities of domestic leaf suitable for cigarettes have never been available for hand-roll operators. A further controlling factor in recent years has been strict enforcement of laws prohibiting the manufacture of cigarettes without payment of internal taxes.

#### Leaf used

Flue-cured leaf has always accounted for most of the tobacco used in cigarettes produced in Manchuria. Small quantities of native sun-cured types and in recent years some native Japanese and Korean types have been used. It is estimated, however, that the portion of leaf used other than flue-cured has for many years been less than 12 percent of the total.

Until 1932-33 the bulk of leaf used was from America. Since that year the utilization of Chinese flue-cured has usually accounted for half or more of the total. The use of Japanese flue-cured has increased during recent years and in 1938-39 accounted for about 30 percent of the total. Utilization of American flue-cured leaf has since 1931-32 ranged from about 5,000,000 to 15,000,000 pounds annually, but during this period there has been a sharp increase in the use of American flue-cured stems. The shift from leaf to stems has resulted from high prices for American leaf, a scarcity of Chinese flue-cured, and increases in internal taxes, which have forced manufacturers to use the lowest-priced product available. Prior to 1931-32 there were practically no stems used, but it is estimated that since that year their utilization has increased to over 5,000,000 pounds annually. Imports of stems into Manchuria were not officially reported until January 1938. For the 9 months January to September 1938 they totaled 7,812,000 pounds and for the 12 months, October 1938 to September 1939, 5,013,000 pounds.

#### Internal taxes

Prior to the segregation of Manchuria from China, cigarettes produced in the country other than those for export or for consumption in Kwantung Leased Territory and the Japanese-controlled zone along the South Manchurian Railway were subject to Chinese national cigarette taxes. They had been increased progressively from their introduction in February 1928, and the last increase before Manchuria was taken over by Japan was in February 1931. The rates established at that time were temporarily continued by the new Manchurian Government. The only changes made were the substitution of the Manchurian yuan as a unit of value. Under these rates, cigarettes were taxed at three fixed rates, which were applied to different wholesale-value classes. Most of the production and sale was in the low-value group (cigarettes valued at \$31.61 or lower per case of 50,000 pieces) for which the tax was \$8.22 per case. The minimum rate applicable to most of the sales was therefore 26 percent of value.

In June 1934 the tax rates were revised. The number of wholesale-price groups was increased from three to seven and the taxes increased substantially.

The following tabulation shows cigarette taxes effective in Manchuria after the country became independent from China.

Date effective	Class	Value per case of 50,000		Tax rate effective	
		<u>Manchurian</u>	<u>United States</u>	<u>Manchurian</u>	<u>United States</u>
		<u>yuan</u>	<u>dollars</u>	<u>yuan</u>	<u>dollars</u>
1932 <u>a/</u>	1	Over 540.00	Over 113.78	305.00	64.26
	2	Over 150.00	Over 31.61	81.00	17.07
	3	150.00 or less	31.61 or less	39.00	8.22
June 28, 1934 <u>b/</u>	1	Over 1,200.00	Over 382.80	600.00	191.40
	2	Below 1,200.00	Below 382.80	400.00	127.60
	3	Below 800.00	Below 255.20	<u>c/</u> 260.00	82.94
	4	Below 500.00	Below 159.50	160.00	51.04
	5	Below 300.00	Below 95.70	100.00	31.90
	6	Below 200.00	Below 63.80	60.00	19.14
	7	Below 100.00	Below 31.90	39.00	12.44

Compiled from information from official sources.

a/ The exact date in 1932 when the new Manchurian Government began collecting taxes is not known. Conversions to United States currency were made at the rate of 21.07 cents per yuan, the average rate for the 6 months July to December 1932.

b/ Conversions to United States currency were made at the average rate for June 1934 of 31.90 cents per yuan.

c/ Reported in one official publication at 360.00 yuan but was apparently an error as subsequent reports from official sources gave 260.00.

Taxes on tobacco products sold in Kwantung Leased Territory and the Japanese-controlled zone along the South Manchurian Railway have not been on the same basis as those for sale in Manchuria proper. For many years, prior to April 1937, the tax on cigarettes sold in Kwantung Leased Territory was 30 percent of retail value plus an additional charge of 2.50 yen per 10,000 stamps used on retail packages. In April 1937, the rate was changed to a minimum of 50 yen per case of 50,000 cigarettes or 30 percent of retail value if the ad-valorem rate yielded more than 50 yen per case. Until recent years cigars were taxed at 25 percent of retail value, but the rate has been recently increased to 35 percent of retail value.

Information regarding what has actually occurred in the collection of taxes on tobacco products sold in the South Manchurian Railway zone is somewhat doubtful. Prior to the occupation of the zone by the Japanese Army in 1932 the collecting and fixing of rates was under the South Manchurian Railway. Since 1932 it has apparently been under the control of the commander of the Japanese Army in the zone. Available information is to the effect that cigarettes produced outside the zone, on which taxes had been paid either to the Kwantung Government or the Manchurian Government, have never been taxed when sold in the zone. For some years prior to December 1935, cigarettes manufactured and sold in the zone were not taxed but those manufactured and shipped out of the zone were apparently, according to destination, subject either to the Manchurian tax or the Kwantung Government tax. In December 1935, an agreement was made whereby 70 percent of the cigarettes manufactured in the zone were taxed upon leaving the factories at the rates applicable to Manchuria proper and were then free to be sold either in the zone, Manchuria

proper, or Kwantung Leased Territory. It is presumed that most of the tax thus collected was turned over to the Manchurian Government and the Kwantung Leased Territory Government, the amount going to each being apportioned in accordance with shipments to the respective areas. In July 1936, these arrangements were modified and all cigarettes manufactured in the zone were subject to the full tax of the Manchurian Government. Under the new plan, 15 percent of the returns from taxes were paid over to the Kwantung Government and the remaining 85 percent to the Manchurian Government.

#### Distribution, brands, and prices

Distribution of cigarettes to retailers in Manchuria is accomplished much the same as in China. The larger manufacturers maintain their own sales and distributing organizations, which make delivery direct to retailers or wholesale brokers. Some of the smaller concerns sell direct to retailers but most of them to wholesale houses, which handle cigarettes along with a number of other products. Commissions both to wholesalers and retailers are small and prices to consumers do not greatly exceed factory prices.

Due to the limited number of manufacturers operating in Manchuria, only seven of any importance in 1938, the number of different brands of cigarettes are not as numerous as in China. Including imported products, however, there are 75 or more brands on the market. The same brand is frequently retailed in different sizes and in different packs. At present, however, the small-size cigarette in paper packages or boxes of tens is the most popular.

Consistency of blends for the different brands does not receive the attention that it does in the United States. Different brands offered by the same company are frequently made up of the same blend of leaf, and blends are modified quickly with changes in supply and price of different types of leaf. Many brands that a few years ago were made almost entirely of American flue-cured leaf are now made from Chinese flue-cured and American stems.

Retail prices vary widely by brands. The lowest-priced domestic product retails for only 7.25 cents per hundred and the highest-priced domestic brand at about 57.82 cents per hundred. Imported brands, including the standard American and British products, sell considerably higher.

Prior to June 1938, different manufacturers frequently used price cutting as a means of increasing sales and eliminating competition. The retail price for an individual brand was frequently lowered for the whole country or in restricted areas to under sell cigarettes of similar quality offered by competitors. This usually resulted in a sharp increase in volume of sales and the competitor being eliminated or being forced to sell to the company which had reduced prices. When this occurred, the reduced price would be returned to the standard charge. To eliminate this situation, the Manchurian Government in June 1938 promulgated an act which fixed retail prices for all important brands of domestic cigarettes.

## OUTLOOK

The possibility of political changes in the Orient during the next 5 to 10 years make difficult the forecasting of probable developments in the tobacco industry of Manchuria. In arriving at a basis for forecasting, it can only be assumed that something near the status quo will be maintained, i.e. that Japan will continue to dominate Manchuria and much of China; that Japan, Manchuria, and North China will each continue to be a separate customs unit, and that there will be no material change in customs duties now collected by the respective areas.

Under the above conditions, tobacco production in Manchuria would probably increase substantially. Production of native types may decrease, but this will likely be offset by a continuation of the rapid increase in flue-cured production. Production of certain Japanese and Korean types and of American burley may be undertaken, but it is not likely to become significant. An expansion in their production would need be accompanied by an important shift to the use of cigarettes other than the straight flue-cured type. It is believed that this will not occur.

There are extensive areas in Manchuria suitable for the production of flue-cured leaf. Production costs are far below those in the United States, below those in the Japanese Empire, and about equal the costs in China. With a continuation of the present duties on all leaf imported into Manchuria, farmers can be paid a sufficiently high price for flue-cured leaf to induce them to grow it in place of soybeans, millet, and other cash crops for which the country now has a substantial surplus. If prices to farmers for flue-cured leaf are maintained at about half or more of the total cost, duty included, for the delivery of similar leaf to Manchuria from China it is likely that domestic production during the next 10 years will be increased to or above domestic requirements.

A portion of an increase in flue-cured supply might be exported to Japan in order to release tobacco lands in that country for use in growing food crops. Exports to points outside the Orient, as a result of the general inferior quality of the leaf, would probably be negligible.

Most of the increase in flue-cured production will no doubt be used in the domestic consumption of cigarettes. This will tend to eliminate imports. During the period of expansion in production most of the import requirement will probably continue to come from China and Japan. Imports from the United States will probably be limited almost entirely to stems and very small supplies of something near average-quality leaf needed in the better-quality cigarettes.

Consumption of native tobacco in the form of pipe tobacco and snuff will probably decrease slightly during the next few years. Cigarette consumption may increase, but possibly not at the rate that it has during the years 1931 to 1939, and may soon reach its maximum.

Continued rapid increase in cigarette consumption will be largely dependent upon further industrial expansion in the country or a pronounced increase in purchasing power brought about by a sharp rise in prices for

agricultural products. Further industrial expansion is likely, but it will probably not be at the rate that it has for the years 1932 to 1939. Japan has indicated that further expansion in Manchuria will receive preference over the development of occupied areas in China; however, if expenditures on the present conflict with China continue for some time at the rate they have been for the past 3 years, Japan's funds for developing any new projects will be below what they have been. It is believed that there will not be a pronounced increase in prices of Manchurian agricultural products. Probable increases in the production of soybeans in the United States and other countries combined with the possibility of a shift in consumption to cheaper vegetable oils by leading soybean-importing countries will likely prevent an increase in bean prices. Present world supplies of wheat and other grains do not indicate price increases for Manchurian grain crops. The tendency to restrict imports into Manchuria of all products that are not necessities, with which tobacco is included, will also tend to curtail the increase in cigarette consumption for the next few years. This factor will become of less importance as the domestic production of cigarette-type leaf increases.

It is probable that further moves toward complete Government control of the tobacco industry will be made during the next few years. A complete monopoly similar to those now in existence in Japan, Chosen, and Taiwan may be established. If this is not done, further regulations controlling the supply and sale of leaf and the manufacture and sale of products will be instigated. The establishment of additional semi-official corporations for handling different phases of the tobacco industry is also probable.

